TECHNICAL ASSISTANCE – GUIDE TO INCENTIVE PROGRAMS

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Background

Incentive programs are designed to enable departments to meaningfully recognize and reward exemplary employee performance that reduces costs, increases revenues, and/or improves productivity or the quality of service for the State of Colorado, its customers, and its taxpayers. As experts in their jobs and in the delivery of state services, state employees are uniquely positioned to pinpoint areas that may be improved and suggest ways to achieve the improvement. To motivate employees to find unique and creative ways to achieve these goals, appropriate awards may be given in monetary or non-monetary form.

Monetary and Non-monetary Awards

All incentive awards, both monetary and non-monetary, are event-specific and the value of an award is not to be added to an employee's base pay. Monetary awards are simply the payment of a specific dollar amount. For example, giving $50 to the employee of the month constitutes a monetary award. Non-monetary awards are non-cash or non-salary awards and vary to certain degrees. Even though an award may be considered non-salary (is not cash or check) it still may have a direct cost and identifiable associated value. Administrative leave is a common form of non-monetary award. Administrative leave has direct cost and budget impact, as the employee's salary for those specific leave hours, must be paid. Listed below are a few examples of non-monetary awards that may have a budget impact or direct cost associated.

- o Administrative leave
- o State merchandise - T-shirts, hats, jackets, etc., that have the state or department logo.
- o Tickets - Professional sport functions, college or university functions, State Fair, local theater, lottery, Colorado Historical Society, etc.
- o Gift Certificates
- o Travel/Parking - Eco-pass or parking pass.
- o Office Items - New desk or other furniture, personalized note pads, embossed pen/pencil sets, plants, lamps, etc.

If a department is operating under tight budget restraints, it may be difficult to give the type of non-monetary awards that may have a direct cost and budget impact. There are non-monetary options that may *not* have direct cost or budget impact. Listed below are a few examples of non-monetary awards that may not have a direct cost associated.

- o Training opportunities – Allow an employee to cross-train in a field of personal interest.
- o Meetings held at an off-site location – To reward group performance, encourage an off-site team or unit meeting at a park.
- o Free coffee or water club – If your office has a coffee club where participants pay a fee to enjoy the service, allow them to participate free of charge for a month.
- o Flextime or Flexplace – Award a high-performing individual the option to work away from the office for a day or two or the option to work a compressed work week. Additional information is available on the work-life website at www.colorado.gov/dpa/dhr.

- o Office options – If purchasing new furniture is not feasible, give a furniture upgrade (some desks are more desirable than others – allow an employee to switch desks) or office upgrade. Some employees may place more value in an office with a window or one more privately located.
- o Conference participation – If there is a conference where participation is not mandatory, award an employee the option of attending the conference.
- o Donated merchandise or gift certificates.
- o Acknowledgement – handwritten note of thanks, certificate, recognize and thank the employee at a staff meeting or in a newsletter or broadcast email.

The key is to be creative. Know what employees value most and be flexible when considering award options. Monetary awards are not necessarily the most effective method of recognizing employees' efforts. Research has shown that non-monetary awards may be more rewarding than monetary awards to many employees. One way to find out what non-monetary awards are meaningful to individuals is to ask. It was reported "only 15% of top performers report the expectation of monetary awards as a very significant influence on their performance" (*Rick Beal, Watson Wyatt Worldwide*).

It is important to consider tax implications even when non-monetary awards are used. For example, an accumulation of $100 in non-monetary awards may be subject to taxation. Departments need to take all of these into consideration when delivering a specific award to employees. State Fiscal Rules and IRS guidelines should be consulted.

Purpose
A successful incentive program should boost employee morale, motivate employees, and create a work environment where cost-savings or revenue-increasing ideas and service improvements are realized, recognized, and rewarded appropriately. These programs are viewed as complementary to the performance pay system so they should be designed considering all of the elements of total compensation and any budget restrictions. This document identifies best practices and defines parameters and implementation guidelines for two distinct programs, the Recognition Award Program and the Suggestion and Savings Award Program. These programs may be combined or altered to best-fit business needs and workplace culture.

Recognition Award Programs

Overview
Recognition award programs acknowledge employees who contribute to their work environment through significant accomplishments, such as personal efforts or behaviors contributing to the improvement of operations or services to the department or public. These accomplishments are realized through the application of knowledge, skills, behaviors, and professional competencies leading to department operational improvements.

Employee recognition can be a powerful management tool for motivating employees. Numerous studies show that employees want to be acknowledged for a job well done. Research has also shown that one of the most motivating forms of recognition is a manager taking the time to personally thank an employee. Recognition programs can range from these simple thank-yous to

complex calculations with monetary recognition awards. Knowledge of employees' desired methods of award and some degree of creativity are all it really takes to design an effective recognition program.

An employee recognition program can be either formal or informal. Formal programs are structured and have defined criteria, pre-determined recognition award amounts, and have set presentation dates. An example of a formal recognition program is an employee of the month, quarter, or year award. Informal recognition is less structured and may simply be an on-the-spot type of award with less pre-defined criteria. Employee recognition programs can acknowledge a variety of exemplary behavior, e.g., safety, achievement, reliability, creativity, excellent customer service, years of service, superior performance, positive attitude, high skill level, and teamwork.

The following are some examples of common types of recognition programs. Departments may adapt the programs to best fit their business operations, work environments, and budgetary processes.

Types of Recognition Programs
- *Thank-You Programs* – A thank-you program should encourage managers to spontaneously recognize employees for desired work behaviors. For this type of program to be most effective, the "thank you" should come directly after the achievement has occurred and be directly attributed to the awarded behavior. A "thank you" that comes too late or is too broad loses its significance. Printed forms or certificates can be used as well as electronic formats such as an email or voicemail greeting. Thank-you programs allow anyone in an organization to recognize anybody, with minimal or no administrative cost. Managers should present this type of symbolic award on the spot, which may provide meaning to the employee beyond the possible monetary value. Other symbolic awards may include plaques, trophies, certificates, pins, desk sets, logo items, reserved parking, etc. These awards allow managers to publicly acknowledge employees' accomplishments and provide the opportunity for employees to exhibit their awards publicly.

- *Service Recognition Programs* – Service recognition programs recognize the years of service an employee has with the organization. One reason this type of program is popular is because all employees are eligible. Pins, plaques, certificates, or outings with managers are all examples for ways to celebrate years of service. The administration of this type of program is relatively easy as it relies on existing and readily available information.

- *Recognition Reward Programs* – Recognition reward programs reinforce organizational objectives and values by rewarding outstanding employee contribution and performance. These programs may be more structured and earning of rewards can be measured by points earned or criteria met. Earned points can be redeemed for cash or non-monetary awards. This type of program typically has categories of rewards, multiple reward items for each category of recognition, and tends to have moderate to substantial budget

impact. Administration of this type of award program can be complex depending on the different categories and types of awards.

Eligibility
Departments may develop recognition programs for all employees or specific groups of employees. Certain types of programs such as service recognition programs may lend themselves to all employees, while other programs, such as driver safety rewards, may be limited to specific employee groups. It is recommended that eligibility be specified in the department's incentive plan.

Suggestion and Savings Award Program

Overview
The purpose of a suggestion and savings award program is to encourage employees to develop, submit, and carry out ideas that improve the efficiency of state operations and service quality, reduce spending, save costs, or generate additional revenue. A suggestion and savings award program provides departments flexibility in awarding employees for **saving state costs** by means of non-monetary or monetary awards.

In the private sector, gainsharing is a tool for sharing profits realized by ideas or activities initiated by employees. The public sector is oriented more toward services than production or profit earning. Quantifiable measurements of production input and output and profits earned are not a model that easily fits the public sector neither is gainsharing for employees' creative ideas or actions. However, the difficulty of quantifiable measures does not mean that state employees' exemplary suggestions, actions, or quality of services, particularly when they realize savings to the state, should not be rewarded. On the contrary, it is critical to reward employees accordingly in order to promote productivity and increase efficiency in state operations.

Departments must have a plan that incorporates reviews of employees' suggestions and actions; documents benefits and savings to that department; and develops criteria for granting awards. There is no need for a complex formula for calculating each employee's input and translating that into a specific level of award. However, a clear correlation between the levels of contribution that employees make to a department and the level of awards granted to employees must be realized. Depending on types of operations and impact of employees' ideas and work, departments need to have flexibility in determining the criteria for eligibility as well as the type and amount of awards. A key to developing a successful suggestion and savings award program is making a commitment to reward employees who make special efforts and go beyond departmental goals to achieve significant and documented savings. Equally important, departments need to communicate clearly to employees the value of the programs and examples of suggestions and actions that benefit departments and earn awards.

The following are some examples of common types of suggestion and award programs. Departments may adapt the programs to best fit their business operations, work environments, and budgetary processes.

- *Suggestion Award Program* – A suggestion award program encourages employees to develop and submit ideas that improve the efficiency of operations or services, or reduce operating expenditures. When ideas result in identifiable savings or additional revenue, the program allows employees to share such monetary benefits. Some suggestions, although constructive, may not fit under the award program. They may include personal grievances or disputes; recommendations of license fee or tax changes; and, recommendations of changes in department mission, program goals, or organizational objectives. Depending on business operations, individual job assignments, and situations, departments should establish their own criteria for eligible and ineligible suggestion items to clearly communicate to employees.

  A suggestion program should be more formal than informal employee recognition programs. It is recommended that departments create their own submission and review processes. Parameters are set based on a department's operational needs. It is critical to ensure that awards granted to employees are equitable and meaningful in relation to the value of employees' contributions. Departments may apply suggestion programs to either individual employees or groups of employees depending on the situation. Departments may also have a policy regarding informal suggestions. Informal suggestions are those that are communicated to a supervisor without completing the established submission and review process that may be acknowledged and rewarded.

- *Physical Productivity Award Program* – This program is tailored specifically for departments that manufacture physical products for sale. For example, in the Department of Corrections, some units are involved in manufacturing traffic signs that can be purchased by the public. Employees may create ideas or ways to save costs in production and increase revenue. Departments can measure the input (or investment) to produce the commodities that may include material, capital, energy and labor costs. The output can be measured by the revenue collected from sales. An increase in profit can be measured in quantity (e.g., profit per unit of product) and can represent the performance variables that are largely under the control of the employees and departments or work units. Departments can measure the profits before (baseline) and after employees implement creative ideas in production. The amount of increase in profit determines the reward. If monetary profit is not realistically possible to measure, departments may also consider measuring the number of staff hours saved in producing the same amount of items to decide the profit. Rewarding employees for increasing productivity and quality of products under this setting can be extremely powerful. Departments need to take into consideration the budgetary processes as well as applicable state rules regarding expenditure and revenue transactions.

- *Service Quality Award Program* – Within state government, physical productivity operations may not be as prevalent because departments are more service oriented. Quality in services related to customer satisfaction, safety, efficiency in work processes and program improvements can all be areas where employees' exemplary efforts and output may be rewarded. As quantifiable measures for these areas are not easy to define, departments may rely on multiple factors to evaluate the contribution made by employees. As a result, the measures will be more flexible in terms of adapting to

changing business conditions and diversity of tasks. The output difference between before and after implementation of an employee's action plan is still the key to determining the type and amount of award.

Eligibility

Most employees in the state personnel system are eligible for the suggestion and saving awards. However, depending on the nature of job assignments, some may not be eligible for certain award programs. For example, a manager would not be eligible to receive an award based on holding a vacancy longer than usual, thereby creating more vacancy savings. A budget officer would not be eligible for awards in saving costs by withholding budget allocations. A group of employees who work in a unit with the primary responsibility of identifying efficiencies and cost reductions would not be eligible for cost savings. As each state department is unique in its operations, eligibility for this award program has to be established for each operation, work unit, division, or department. It is critical that once eligibility and parameters are set, they are applied consistently to all employees. It is also important to make every effort to include the "small" suggestions in your department plan. A suggestion that allows employees to save time on a process that affords them more time to take on other duties should also be considered for an award, as long as there is value to the agency. Agencies would want to assure that it is cost beneficial to award employees for savings realized.

Keys to Successful Implementation

Director's Administrative Procedure contains several requirements including involving employees and managers in the design of the program, communicating the program throughout the department prior to implementation and on an ongoing basis, and applying the program consistently. An executive order and Statute have some additional references that may be helpful. In addition, an incentive program should include the following.

- *Link recognized and rewarded behaviors to your organization's mission* – Incentive awards will acknowledge how well the organization performs its mission. Awards given to employees should produce a positive effect on the work unit or department and be proportional to the cost and time for administration. Managers who see a direct link to the program mission are more likely to sustain interest in recognizing employees.
- *Tailor the program to fit your business needs and goals* – The design of an incentive program needs to be flexible to allow for adaptability to department operations and needs. For example, in the case of a suggestion and savings award program, flexibility applies to the development of any applicable formula for measuring inputs and outcomes, the parameters for determining types and amounts of awards, availability of funds, and pay out schedules. Only if departments have flexibility, can they empower their employees to take ownership in improving work productivity and quality.
- *Policy for the program* – Effective program policy should convey the commitment within the department (from both management and employees). A policy needs to identify the objectives and goals that a department is seeking to achieve. As diversified as each program may be, a policy should clearly communicate to employees and managers how,

why, and what types of suggestions, behaviors, or productivity accomplishments will be rewarded.

- *Develop specific criteria* – Put parameters, goals, and program criteria in writing. Include specific, straightforward goals and establish timeframes in which goals must be completed. Keep the number of benchmarks within reason and keep it fun. Create an easily understood measurement system that is viewed as fair and attainable.
- *Target the audience* – Determine what types of jobs are eligible, identify the number of employees, who they are and what motivates them. Determine whether team or individual recognition is appropriate, what is valued, how employees perceive recognition, what should be accomplished, and what behaviors need improvement. Target behavior that has an impact on the bottom line, is measurable, and choose one or two of the most pressing needs.
- *Determine the awards* – This is one of the most important steps. Rewards that mean the most to employees will have the best results. Choose award types and methods that will stimulate employees to participate and maximize motivation to believe they can make an impact. Use employees' input to set up multiple award preferences, types and methods (monetary and non-monetary) so employees have the opportunity to receive awards that are most desirable to them. In addition, as a program becomes more structured and quantifiable, the expectation of a finite award may be higher. It is critical to assure awards are granted equitably.
- *Build a budget* – Include costs for operation, publications, awards, training, administration, ceremonies, supplies, etc. Impact on the department's budget can range from minimal to substantial, depending on the method of reward and the program. It is important that departments consider budgetary impact while designing a program. It is recommended that budget staff be included in the design group.
- *Buy-in* – To achieve the commitment from both management and employees, buy-in from all levels is critical. Management needs to appreciate the power of the incentive program and use it wisely; employees need to understand clearly what they can control to improve their department's operations. Equally important is support from the budgetary process and availability of any necessary funds. All of these entities need to work together to make the program successful.
- *Training* – Communicate to managers the program objectives in order to have buy-in prior to announcing the program to the workforce. Emphasize program goals to managers and communicate clearly how the program works and how employees are recognized. Training will help ensure that the program is used appropriately and consistently. Because a suggestion and savings award program should be formal and structured, training for all participants is a must. All employees, supervisors, and managers must understand how the program will work and have the knowledge and skill base to work within the program and make it beneficial to all.
- *Communicate the program's existence* – Communication is a key to any successful program. Communicating award program information is an on-going process. Communication with employees must begin before the program is implemented, during start-up and implementation, continuing throughout the time the program is active, and when and if it ends. Because the suggestion and savings award program may not be familiar within state operations, it is critical that all levels of employees understand what can be done within state operations and has been done in business outside of state

governments. Be sure to communicate the program criteria and awards. Communication with real examples will help all parties to realize the potential of the program.

- *Present the awards* – Make sure the presentation of an award matches the significance of the contribution and the awards are meaningful to recipients. Awards too large or too small may create negative reactions to the program.
- *Evaluate the program* – Evaluation ensures effective validation of the program's goals and objectives. It is recommended that evaluation take place at least annually. A survey is an effective tool for getting feedback and should include employees, supervisors, managers, and focus groups. Surveys should gauge employee reaction, understanding of the program, impact on behavior, whether or not expectations have been met, what was liked or disliked, and how the program could improve. Employees' feedback on program communications, award criteria and amounts, program structure, and results of the program are critical for improving the program. Suggestion and savings awards should be documented to further justify the existence of the program.

Being able to demonstrate why and how employees are rewarded will communicate to employees the commitment from management to rewarding efficient work behaviors and actions. Flexibility and spontaneity in the presentation of awards to employees will achieve the highest effectiveness of the program.

The above information is general in nature and every attempt is made to keep this information updated. Subsequent revisions to rule or law could cause conflicts in this information. In such a situation, the laws and procedures are the official source upon which to base a ruling or interpretation. This document is a guide, not a contract or legal advice. When implementing Department incentive programs, be cautious about existing laws, rules, policies and budgetary considerations. For more information or examples of incentive programs implemented in other jurisdictions, states, and private sector companies, contact the Division of Human Resources at 303-866-2391 and ask for assistance with incentive programs.